

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Dexter	County Washtenaw
Fiscal Year End June 30, 2006	Opinion Date October 25, 2006	Date Audit Report Submitted to State December 27, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES  
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Post, Smythe, Lutz and Ziel LLP		Telephone Number (734) 453-8770	
Street Address 1034 West Ann Arbor Trail		City Plymouth	State MI
Zip 48170			
Authorizing CPA Signature 	Printed Name Rana M. Emmons	License Number 22716	

**VILLAGE OF DEXTER**  
**Washtenaw County, Michigan**

**AUDITED FINANCIAL REPORT**

**For the Sixteen Months Ended**  
**June 30, 2006**

VILLAGE OF DEXTER  
For the Sixteen Months Ended June 30, 2006

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For the Sixteen Months Ended June 30, 2006

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## FINANCIAL SECTION

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### Independent Auditor's Report

October 25, 2006

To the Honorable President and Village Council  
Village of Dexter  
Dexter, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Dexter, Michigan, as of and for the sixteen months ended June 30, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Dexter's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Village of Dexter Downtown Development Authority or the Village of Dexter Local Development Financing Authority. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Village of Dexter Downtown Development Authority or the Village of Dexter Local Development Financing Authority is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

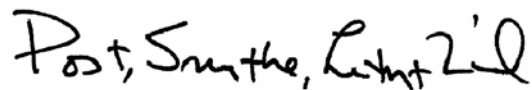
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Dexter as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

President and Village Council  
Village of Dexter, Michigan  
October 25, 2006

The management's discussion and analysis and the defined benefit pension plan trend information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Dexter's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully,

A handwritten signature in black ink that reads "Post, Smythe, Lutz & Ziel". The signature is written in a cursive, flowing style.

POST, SMYTHE, LUTZ and ZIEL LLP  
Certified Public Accountants

## **Management's Discussion and Analysis Sixteen Month Period Ending June 30, 2006**

As management of the Village of Dexter, we offer readers of the Village of Dexter's financial statements this narrative overview and analysis of the financial activities of the Village of Dexter for the sixteen months ended June 30, 2006. All amounts, unless otherwise indicated, are expressed in whole dollars.

The Governmental Accounting Standards Board (G.A.S.B.) adopted this reporting model in Statement No. 34. Certain comparative information between the current sixteen month period and the prior twelve month period is required to be presented in the "Management's Discussion and Analysis". The Village Council (with approval of the Michigan Department of Treasury) voted to change its fiscal year from February 28 to June 30. As a result, the financial statements are for the sixteen month period ending June 30, 2006. The comparison of changes in net assets is comparing a sixteen month period to a twelve month period.

### **Financial Highlights**

- The assets of the Village of Dexter exceeded its liabilities at the close of the most recent fiscal year by \$15,386,826 (*net assets*). Of this amount, \$3,376,435 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$1,620,614.
- At the close of the current sixteen month period, the Village of Dexter's governmental funds reported combined ending fund balances of \$2,561,362. Ninety-two percent of this total amount, \$2,365,288, is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current sixteen month period, unreserved fund balance for the general fund was \$1,015,134, or 31 percent of total general fund expenditures.
- The Village of Dexter's total debt decreased by \$720,543 (8.3 percent) during the current sixteen month period.

### **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the Village of Dexter's basic financial statements, which have three components:

- 1) Government-wide Financial Statements
- 2) Fund Financial Statements
- 3) Notes to the Financial Statements.



**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the Village of Dexter's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Village of Dexter's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village of Dexter is improving or deteriorating. The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Village of Dexter that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Village of Dexter include general government, public works, police, fire, streets, debt service, and capital improvements. The business-type activity of the Village of Dexter are the Water and Sewer Funds.

The government-wide financial statements include not only the Village of Dexter itself (known as the *primary government*), but also a legally separate component units, the Downtown Development Authority (DDA) and the Local Finance Development Authority (LDFA) districts for which the Village of Dexter is financially accountable. Financial information for these *component units* are reported separately from the financial information presented for the primary government itself. The complete audited financial reports can be obtained at the Village offices.

The government-wide financial statements can be found on pages 10-12 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village of Dexter, like other state and local governments, used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village of Dexter can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

***Governmental funds.*** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Municipal Street Special Revenue Fund, and the Streetscape Debt Service Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The basic governmental fund financial statements can be found on pages 13-15 of this report.

***Proprietary funds.*** The Village of Dexter maintains two proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Village of Dexter used enterprise funds to account for its Water and Sewer operations.

Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Funds, which are considered major funds of the Village of Dexter.

The basic proprietary fund financial statements can be found on pages 16-18 of this report.

***Fiduciary funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Village of Dexter's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 19-20 of this report.

**Component Units.** As previously mentioned, the Village has two separate and distinct "component units", whose financial activities are summarized on pages 21-22. Complete audited financial reports are available in the Village offices of both of these entities.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-46 of this report.

### Government-wide Financial Analysis

Assets exceeded liabilities by \$15,386,826 at the close of the most recent fiscal year. Of the Village of Dexter's net assets, 65 percent reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Village of Dexter used these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

#### Village of Dexter's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 3,355,596	\$ 3,022,600	\$ 2,930,850	\$ 1,921,464	\$ 6,286,446	\$ 4,944,064
Capital Assets	6,353,348	5,854,333	12,324,042	13,056,269	18,677,390	18,910,602
Total Assets	<u>9,708,944</u>	<u>8,876,933</u>	<u>15,254,892</u>	<u>14,977,733</u>	<u>24,963,836</u>	<u>23,854,666</u>
Long-term liabilities	2,735,000	3,095,000	5,907,227	6,267,770	8,642,227	9,362,770
Other liabilities	794,234	621,054	140,549	104,630	934,783	725,684
Total Liabilities	<u>3,529,234</u>	<u>3,716,054</u>	<u>6,047,776</u>	<u>6,372,400</u>	<u>9,577,010</u>	<u>10,088,454</u>
Net Assets:						
Invested in capital assets, net of related debt	3,618,348	2,759,333	6,416,815	6,788,499	10,035,163	9,547,832
Restricted	195,324	341,774	1,779,904	1,572,904	1,975,228	1,914,678
Unrestricted	2,366,038	2,059,772	1,010,397	243,930	3,376,435	2,303,702
Total Net Assets	<u>\$ 6,179,710</u>	<u>\$ 5,160,879</u>	<u>\$ 9,207,116</u>	<u>\$ 8,605,333</u>	<u>\$ 15,386,826</u>	<u>\$ 13,766,212</u>

At the end of the current fiscal year, the Village of Dexter is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Net assets increased by \$1,620,614 during the current fiscal year.

**Governmental activities.** Governmental activities increased net assets by \$1,018,831 accounting for 63 percent of the total growth in the net assets of the Village of Dexter.

Key elements of this net asset increase are as follows:

- Increase due to reduction in Long-term debt of \$360,000.
- Decrease of Capital Assets due to depreciation of \$471,942.
- Increase due to deferred capital expenditures.
- Alpine Street Project in Downtown Development Authority District.

**Business-type activities.** Business-type activities increased net assets by \$601,783, accounting for 37% of the total growth in net assets. Most of this increase is due to capital contributions net of operating losses.

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Program Revenues:						
Charges for Services	\$ 1,186,651	\$ 798,589	\$ 2,463,161	\$ 1,450,979	\$ 3,649,812	\$ 2,249,568
Operating Grants & Contrib.	146,477	298,661	1,209	1,072	147,686	299,733
Capital Grants & Contrib.	652,743	-	863,442	621,804	1,516,185	621,804
General Revenues:						
Property Taxes	2,522,101	2,372,413	-	-	2,522,101	2,372,413
State Shared Revenues	497,564	188,978	-	-	497,564	188,978
Investment Earnings	112,306	15,298	92,076	15,679	204,382	30,977
Franchise Fees	39,496	34,934	-	-	39,496	34,934
Total Revenues	<u>5,157,338</u>	<u>3,708,873</u>	<u>3,419,888</u>	<u>2,089,534</u>	<u>8,577,226</u>	<u>5,798,407</u>
Program Expenses						
General Government	975,921	586,483	-	-	975,921	586,483
Public Safety	850,386	580,154	-	-	850,386	580,154
Planning & Zoning	132,244	105,106	-	-	132,244	105,106
Public Works	2,026,543	1,443,992	-	-	2,026,543	1,443,992
Recreation and Cultural	35,515	41,105	-	-	35,515	41,105
Interest on Long-Term Debt	117,898	87,017	-	-	117,898	87,017
Water and Sewer	-	-	2,818,105	2,015,319	2,818,105	2,015,319
Total Expenses	<u>4,138,507</u>	<u>2,843,857</u>	<u>2,818,105</u>	<u>2,015,319</u>	<u>6,956,612</u>	<u>4,859,176</u>
Change in Net Assets	<u>\$ 1,018,831</u>	<u>\$ 865,016</u>	<u>\$ 601,783</u>	<u>\$ 74,215</u>	<u>\$ 1,620,614</u>	<u>\$ 939,231</u>

## Financial Analysis of the Government's Funds

As noted earlier, the Village of Dexter used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the Village of Dexter's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources.

As of the end of the current fiscal year, the governmental funds reported combined ending fund balances of \$2,561,362, 92% of this total amount (\$2,365,288) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance (\$196,074) is *reserved* to indicate that it is not available for new spending because it has already been committed.

Total governmental fund balances increased \$159,816 for the sixteen month period ended June 30, 2006 as compared to the 2004-2005 fiscal year. This increase is primarily attributable to:

- Approximately \$60,000 in DPW Facility/Salt Storage improvements deferred until final facility planning is complete.
- An increase to investment income earned due to an increase in interest rates.
- Kensington Street improvement project commenced in 2006. An estimated project cost for this project is \$700,000.

The General Fund is the chief operating fund of the Village of Dexter. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,015,134, and total fund balance was \$1,015,884 which represents 31 percent of total general fund expenditures.

**Proprietary funds.** The Village of Dexter's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Funds at the end of the sixteen month period amounted to \$1,010,397. Factors concerning the change in net assets have already been addressed in the discussion of business-type activities.

## General Fund Budgetary Highlights

There was no net change between the original budget and the final amended budget for the sixteen month period ended June 30, 2006.

## **Capital Asset and Debt Administration**

**Capital assets.** The Village of Dexter's investment in capital assets for its governmental and business type activities is \$18,677,390 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings, machinery and equipment, park facilities, and roads. The Village of Dexter's investment in capital assets for the current fiscal year was increased 9% for governmental activities due in part to the DDA's Alpine Street project, and decreased 6% in business-type activities, primarily due to depreciation charges and no significant additions in investments.

Additional information on the Village of Dexter's capital assets can be found in note IV.B on pages 34-35 of this report.

**Long-term debt.** At the end of the current fiscal year, the Village of Dexter had total bond debt outstanding of \$8,642,227. Of this amount, \$2,735,000 is governmental, and \$5,907,227 is business-type. The Village of Dexter's total bond debt decreased by \$720,543 (8 percent) during the current fiscal year.

Additional information on the Village of Dexter's long-term debt can be found in note IV.D on pages 36-41 of this report.

## **Economic Factors and Next Year's Budgets and Rates**

- The Village issued a \$1,700,000 general obligation limited tax bonds in November 2006 for various capital improvement projects in the Village.
- The Village experiences annual increases in employee costs, which range above the rate of inflation. Successful contract negotiations for contract period March 1, 2005 to February 28, 2008 will diminish these increases and help the Village maintain financial stability.

## **Requests for Information**

This financial report is designed to provide a general overview of the Village of Dexter's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to 8140 Main Street, Dexter Michigan 48130.

## BASIC FINANCIAL STATEMENTS

**VILLAGE OF DEXTER**  
**Statement of Net Assets**  
**June 30, 2006**

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		
<b><u>ASSETS</u></b>				
Cash and Cash Equivalents	\$ 2,676,191	\$ 798,371	\$ 3,474,562	\$ 1,257,208
Receivables (net of allowance for uncollectibles):				
Taxes	172,924	-	172,924	-
Accounts	112,227	348,937	461,164	-
Special Assessments	358,465	-	358,465	-
Due from Other Funds	-	2,748	2,748	-
Due from Component Units	-	-	-	219,164
Due from Other Governmental Units	35,039	890	35,929	69,991
Restricted Assets - Cash and Cash Equivalents	-	1,779,904	1,779,904	-
Prepaid Expenditures	750	-	750	-
Capital Assets (net of Accumulated Depreciation)	6,353,348	12,324,042	18,677,390	-
Total Assets	<u>9,708,944</u>	<u>15,254,892</u>	<u>24,963,836</u>	<u>1,546,363</u>
<b><u>LIABILITIES</u></b>				
Accounts Payable	112,656	71,543	184,199	750
Accrued Liabilities	101,201	69,006	170,207	-
Due to Other Governmental Units	-	-	-	211,502
Due to Other Funds	2,748	-	2,748	-
Due to Component Units	219,164	-	219,164	-
Deferred Revenue	358,465	-	358,465	-
Noncurrent Liabilities:				
Due within one year	230,000	334,736	564,736	805,000
Due in more than one year	2,505,000	5,572,491	8,077,491	82,800
Total Liabilities	<u>3,529,234</u>	<u>6,047,776</u>	<u>9,577,010</u>	<u>1,100,052</u>
<b><u>NET ASSETS</u></b>				
Invested in Capital Assets, net of related debt	3,618,348	6,416,815	10,035,163	-
Restricted for:				
Debt Service	195,324	1,779,904	1,975,228	-
Capital Projects	-	-	-	42,623
Unrestricted	2,366,038	1,010,397	3,376,435	403,688
Total Net Assets	<u>\$ 6,179,710</u>	<u>\$ 9,207,116</u>	<u>\$ 15,386,826</u>	<u>\$ 446,311</u>



**VILLAGE OF DEXTER**  
**Statement of Activities**  
**For the Sixteen Months Ended June 30, 2006**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 975,921	\$ 301,148	\$ 23,500	\$ -
Public Safety	850,386	7,141	2,360	-
Planning and Zoning	132,244	30,177	-	-
Public Works	2,026,543	848,185	110,000	652,743
Recreation and Cultural	35,515	-	10,617	-
Interest on Long-Term Debt	117,898	-	-	-
Total Governmental Activities	<u>4,138,507</u>	<u>1,186,651</u>	<u>146,477</u>	<u>652,743</u>
Business-type Activities:				
Water	1,081,521	774,710	1,209	404,913
Sewer	1,736,584	1,688,451	-	458,529
Total Business-type Activities	<u>2,818,105</u>	<u>2,463,161</u>	<u>1,209</u>	<u>863,442</u>
Total Primary Government	<u>\$ 6,956,612</u>	<u>\$ 3,649,812</u>	<u>\$ 147,686</u>	<u>\$ 1,516,185</u>
Component Units	<u>\$ 1,384,447</u>	<u>\$ -</u>	<u>\$ 276,375</u>	<u>\$ -</u>

General Revenues:  
Property Taxes  
State Shared Revenue  
Sale of Property  
Franchise Fees  
Unrestricted Investment Earnings  
Total General Revenues

Change in Net Assets  
Net Assets - Beginning

Net Assets - Ending

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (651,273)	\$ -	\$ (651,273)	\$ -
(840,885)	-	(840,885)	-
(102,067)	-	(102,067)	-
(415,615)	-	(415,615)	-
(24,898)	-	(24,898)	-
(117,898)	-	(117,898)	-
<u>(2,152,636)</u>	<u>-</u>	<u>(2,152,636)</u>	<u>-</u>
-	99,311	99,311	-
-	410,396	410,396	-
<u>-</u>	<u>509,707</u>	<u>509,707</u>	<u>-</u>
<u>(2,152,636)</u>	<u>509,707</u>	<u>(1,642,929)</u>	<u>-</u>
-	-	-	(1,108,072)
2,522,101	-	2,522,101	334,579
497,564	-	497,564	-
-	-	-	348,633
39,496	-	39,496	-
112,306	92,076	204,382	69,669
<u>3,171,467</u>	<u>92,076</u>	<u>3,263,543</u>	<u>752,881</u>
1,018,831	601,783	1,620,614	(355,191)
<u>5,160,879</u>	<u>8,605,333</u>	<u>13,766,212</u>	<u>801,502</u>
\$ <u><u>6,179,710</u></u>	\$ <u><u>9,207,116</u></u>	\$ <u><u>15,386,826</u></u>	\$ <u><u>446,311</u></u>

**VILLAGE OF DEXTER**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2006**

	<u>General</u>	<u>Municipal Street Special Revenue</u>	<u>Streetscape Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>					
Cash and Cash Equivalents	\$ 1,133,061	\$ 1,100,416	\$ 177,235	\$ 265,479	\$ 2,676,191
Receivables (net of allowance for uncollectibles):					
Taxes	115,087	37,000	20,837	-	172,924
Accounts	112,227	-	-	-	112,227
Special Assessments	-	-	358,465	-	358,465
Due from Other Units	35,039	-	-	-	35,039
Prepaid Expenditures	750	-	-	-	750
Total Assets	\$ <u>1,396,164</u>	\$ <u>1,137,416</u>	\$ <u>556,537</u>	\$ <u>265,479</u>	\$ <u>3,355,596</u>

**LIABILITIES AND FUND BALANCE**

Liabilities:					
Accounts Payable	\$ 60,413	\$ -	\$ -	\$ 52,243	\$ 112,656
Accrued and Other Liabilities	100,703	498	-	-	101,201
Due to Other Funds	-	-	2,748	-	2,748
Due to Component Units	219,164	-	-	-	219,164
Deferred Revenue	-	-	358,465	-	358,465
Total Liabilities	<u>380,280</u>	<u>498</u>	<u>361,213</u>	<u>52,243</u>	<u>794,234</u>
Fund Balances:					
Reserved for:					
Prepaid Expenditures	750	-	-	-	750
Debt Service	-	-	195,324	-	195,324
Unreserved for:					
General Fund	1,015,134	-	-	-	1,015,134
Special Revenue Funds	-	1,136,918	-	213,236	1,350,154
Total Fund Balances	<u>1,015,884</u>	<u>1,136,918</u>	<u>195,324</u>	<u>213,236</u>	<u>2,561,362</u>
Total Liabilities and Fund Balances	\$ <u>1,396,164</u>	\$ <u>1,137,416</u>	\$ <u>556,537</u>	\$ <u>265,479</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	6,353,348
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(2,735,000)</u>
Net Assets of Governmental Activities	\$ <u>6,179,710</u>

**VILLAGE OF DEXTER**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Sixteen Months Ended June 30, 2006**

	General	Municipal Street Special Revenue	Streetscape Debt Service	Other Governmental Funds	Total Governmental Funds
<b><u>Revenues</u></b>					
Property Taxes	\$ 1,835,266	\$ 550,076	\$ 136,759	\$ -	\$ 2,522,101
Licenses and Permits	19,123	-	-	-	19,123
Intergovernmental:					
Federal, State and Local	276,831	-	-	246,593	523,424
Charges for Services	890,970	-	-	111,246	1,002,216
Fines and Forfeitures	7,141	-	-	-	7,141
Franchise Fees	39,496	-	-	-	39,496
Special Assessments	-	-	75,626	-	75,626
Interest	57,795	32,558	9,063	12,890	112,306
Other	93,162	-	-	-	93,162
Total Revenues	<u>3,219,784</u>	<u>582,634</u>	<u>221,448</u>	<u>370,729</u>	<u>4,394,595</u>
<b><u>Expenditures</u></b>					
Current:					
General Government	774,636	-	-	-	774,636
Public Safety	824,718	-	-	-	824,718
Planning and Zoning	132,244	-	-	-	132,244
Public Works	999,698	33,382	-	552,336	1,585,416
Recreation and Cultural	32,538	-	-	-	32,538
Other	199,115	-	-	-	199,115
Debt Service:					
Principal	-	-	250,000	-	250,000
Interest and Other Charges	-	-	117,898	-	117,898
Capital Outlay	318,214	-	-	-	318,214
Total Expenditures	<u>3,281,163</u>	<u>33,382</u>	<u>367,898</u>	<u>552,336</u>	<u>4,234,779</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(61,379)</u>	<u>549,252</u>	<u>(146,450)</u>	<u>(181,607)</u>	<u>159,816</u>
<b><u>Other Financing Sources (Uses)</u></b>					
Transfers In	152,183	-	-	245,225	397,408
Transfers Out	-	(215,000)	-	(182,408)	(397,408)
Total Other Financing Sources (Uses)	<u>152,183</u>	<u>(215,000)</u>	<u>-</u>	<u>62,817</u>	<u>-</u>
Net Change in Fund Balances	90,804	334,252	(146,450)	(118,790)	159,816
Fund Balances - Beginning	<u>925,080</u>	<u>802,666</u>	<u>341,774</u>	<u>332,026</u>	<u>2,401,546</u>
Fund Balances - Ending	<u>\$ 1,015,884</u>	<u>\$ 1,136,918</u>	<u>\$ 195,324</u>	<u>\$ 213,236</u>	<u>\$ 2,561,362</u>

**VILLAGE OF DEXTER**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**For the Sixteen Months Ended June 30, 2006**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 159,816
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay expense exceeded depreciation expense in the current period.	499,015
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net long-term debt and related items.	<u>360,000</u>
Change in net assets in governmental activities	\$ <u><u>1,018,831</u></u>

**VILLAGE OF DEXTER**  
**Balance Sheet**  
**Proprietary Funds**  
**June 30, 2006**

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
<b><u>ASSETS</u></b>			
Current Assets:			
Cash and Cash Equivalents	\$ 342,645	\$ 455,726	\$ 798,371
Accounts Receivable	126,240	222,697	348,937
Due from Other Funds	2,748	-	2,748
Due from Other Units	-	890	890
Total Current Assets	<u>471,633</u>	<u>679,313</u>	<u>1,150,946</u>
Restricted Assets:			
Cash	<u>717,314</u>	<u>1,062,590</u>	<u>1,779,904</u>
Fixed Assets:			
Land	221,577	127,212	348,789
Water System	6,719,603	-	6,719,603
Sewer System	-	12,248,075	12,248,075
Vehicles	23,800	17,765	41,565
Accumulated Depreciation	<u>(2,264,363)</u>	<u>(4,769,627)</u>	<u>(7,033,990)</u>
Net Fixed Assets	<u>4,700,617</u>	<u>7,623,425</u>	<u>12,324,042</u>
Total Assets	<u>\$ 5,889,564</u>	<u>\$ 9,365,328</u>	<u>\$ 15,254,892</u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>			
Liabilities:			
Current Liabilities:			
Accounts Payable	\$ 49,512	\$ 22,031	\$ 71,543
Accrued Liabilities	21,475	43,926	65,401
Deposits	3,605	-	3,605
Note Payable	-	34,736	34,736
General Obligation Bonds Payable	40,000	180,000	220,000
Revenue Bonds Payable	<u>40,000</u>	<u>40,000</u>	<u>80,000</u>
Total Current Liabilities	<u>154,592</u>	<u>320,693</u>	<u>475,285</u>
Long-Term Liabilities:			
Note Payable	-	36,491	36,491
General Obligation Bonds Payable (Net of Current Portion)	285,000	180,000	465,000
Revenue Bonds Payable (Net of Current Portion)	<u>2,332,000</u>	<u>2,739,000</u>	<u>5,071,000</u>
Total Long-Term Liabilities	<u>2,617,000</u>	<u>2,955,491</u>	<u>5,572,491</u>
Total Liabilities	<u>2,771,592</u>	<u>3,276,184</u>	<u>6,047,776</u>
Fund Equity:			
Invested in Capital Assets, net of related debt	2,003,617	4,413,198	6,416,815
Restricted for Debt Service	717,314	1,062,590	1,779,904
Unrestricted	<u>397,041</u>	<u>613,356</u>	<u>1,010,397</u>
Total Fund Equity	<u>3,117,972</u>	<u>6,089,144</u>	<u>9,207,116</u>
Total Liabilities and Fund Equity	<u>\$ 5,889,564</u>	<u>\$ 9,365,328</u>	<u>\$ 15,254,892</u>

**VILLAGE OF DEXTER**  
**Statement of Revenues, Expenses and Changes in Fund Equity**  
**Proprietary Funds**  
**For the Sixteen Months Ended June 30, 2006**

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
Operating Revenues:			
Water Billings	\$ 748,040	\$ -	\$ 748,040
Sewer Billings	-	1,178,142	1,178,142
Miscellaneous	26,670	9,614	36,284
Total Operating Revenues	<u>774,710</u>	<u>1,187,756</u>	<u>1,962,466</u>
Operating Expenses:			
Operations & Maintenance	511,290	851,366	1,362,656
Depreciation Expense	398,515	651,368	1,049,883
Total Operating Expenses	<u>909,805</u>	<u>1,502,734</u>	<u>2,412,539</u>
Operating Income (Loss)	<u>(135,095)</u>	<u>(314,978)</u>	<u>(450,073)</u>
Nonoperating Revenues (Expenses):			
Interest Income	41,180	50,896	92,076
State Grant	1,209	-	1,209
Special Assessments	-	500,695	500,695
Contribution from LDFA	181,375	114,967	296,342
Interest and Fees	(171,716)	(233,850)	(405,566)
Total Nonoperating Revenues (Expenses)	<u>52,048</u>	<u>432,708</u>	<u>484,756</u>
Income (Loss) Before Contributions and Transfers	(83,047)	117,730	34,683
Capital Contributions	<u>223,538</u>	<u>343,562</u>	<u>567,100</u>
Net Income	140,491	461,292	601,783
Retained Earnings - Beginning	<u>2,977,481</u>	<u>5,627,852</u>	<u>8,605,333</u>
Retained Earnings - Ending	<u>\$ 3,117,972</u>	<u>\$ 6,089,144</u>	<u>\$ 9,207,116</u>

**VILLAGE OF DEXTER**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Sixteen Months Ended June 30, 2006**

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Receipts from customers and users	\$ 715,744	\$ 1,088,126	\$ 1,803,870
Payments to suppliers	(293,396)	(456,638)	(750,034)
Payments to employees	(169,509)	(411,472)	(580,981)
Net Cash Provided (Used) by Operating Activities	252,839	220,016	472,855
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u></b>			
Subsidy from State Grant	1,209	-	1,209
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>			
Capital Contributions	223,538	343,562	567,100
Contributions from LDFA	181,375	114,967	296,342
Special Assessments	-	500,695	500,695
Purchase of capital assets	(2,287)	(26,252)	(28,539)
Construction of capital assets	(153,836)	(135,281)	(289,117)
Principal Paid on Debt	(78,000)	(282,543)	(360,543)
Interest Paid on Debt	(171,716)	(233,850)	(405,566)
Net Cash Provided (Used) by Capital and Related Financing Activities	(926)	281,298	280,372
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>			
Interest Earned	41,180	50,896	92,076
Net Increase (Decrease) in Cash and Cash Equivalents	294,302	552,210	846,512
Cash and Cash Equivalents, Beginning	765,657	966,106	1,731,763
Cash and Cash Equivalents, Ending	\$ 1,059,959	\$ 1,518,316	\$ 2,578,275
<b><u>BALANCE SHEET CLASSIFICATION</u></b>			
Cash and Cash Equivalents	\$ 342,645	\$ 455,726	\$ 798,371
Restricted Assets - Cash	717,314	1,062,590	1,779,904
Total	\$ 1,059,959	\$ 1,518,316	\$ 2,578,275
<b><u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</u></b>			
Operating Income (Loss)	\$ (135,095)	\$ (314,978)	\$ (450,073)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation and Amortization Expense	398,515	651,368	1,049,883
(Increase) Decrease in Accounts Receivable	(71,251)	(118,341)	(189,592)
(Increase) Decrease in Due from Other Funds	5,901	-	5,901
(Increase) Decrease in Due from Other Units	6,784	18,711	25,495
Increase (Decrease) in Accounts Payable	40,901	7,474	48,375
Increase (Decrease) in Accrued Liabilities	8,303	(16,812)	(8,509)
Increase (Decrease) in Due to Other Funds	(819)	(7,406)	(8,225)
Increase (Decrease) in Deposits	(400)	-	(400)
Net Cash Provided (Used) by Operating Activities	\$ 252,839	\$ 220,016	\$ 472,855



**VILLAGE OF DEXTER**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2006**

	Economic Development Trust Fund	Agency Funds
<b><u>ASSETS</u></b>		
Cash	\$ 60,487	\$ 21,768
Accounts Receivable	-	-
Due from Component Unit	293,000	-
Total Assets	<u>353,487</u>	<u>21,768</u>
<b><u>LIABILITIES</u></b>		
Due to Other	<u>-</u>	<u>21,768</u>
<b><u>NET ASSETS</u></b>		
Restricted for Economic Development	\$ <u><u>353,487</u></u>	\$ <u><u>-</u></u>

VILLAGE OF DEXTER  
Statement of Changes in Fiduciary Net Assets  
Economic Development Trust Fund  
For the Sixteen Months Ended June 30, 2006

Additions:		
Interest Income	\$	1,474
Deductions:		
Expenses		<u>-</u>
Net Increase		1,474
Net Assets - Beginning		<u>352,013</u>
Net Assets - Ending	\$	<u><u>353,487</u></u>

**VILLAGE OF DEXTER**  
**Statement of Net Assets - Component Units**  
**June 30, 2006**

	<u>June 30, 2006</u>	<u>February 28, 2006</u>	
	Downtown Development Authority	Local Development Financing Authority	Total
<b><u>ASSETS</u></b>			
Cash and Cash Equivalents	\$ 468,045	\$ 789,163	\$ 1,257,208
Due from Primary Government	219,164	-	219,164
Due from Other Units	-	69,991	69,991
Total Assets	<u>687,209</u>	<u>859,154</u>	<u>1,546,363</u>
<b><u>LIABILITIES</u></b>			
Accounts Payable	750	-	750
Due to Other Units	211,502	-	211,502
Noncurrent Liabilities:			
Due within one year	315,000	490,000	805,000
Due in more than one year	82,800	-	82,800
Total Liabilities	<u>610,052</u>	<u>490,000</u>	<u>1,100,052</u>
<b><u>NET ASSETS</u></b>			
Restricted for Capital Projects	42,623	-	42,623
Unrestricted	34,534	369,154	403,688
	<u>\$ 77,157</u>	<u>\$ 369,154</u>	<u>\$ 446,311</u>

**VILLAGE OF DEXTER**  
**Statement of Activities - Component Units**  
**For the Sixteen Months Ended June 30, 2006**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Sixteen Months Ended June 30, 2006	Twelve Months Ended February 28, 2006	Total
					Downtown Development Authority	Local District Fin. Auth.	
<u>Functions/Programs</u>							
Downtown Development Authority	\$ 1,288,347	\$ -	\$ 276,375	\$ -	\$ (1,011,972)	\$ -	\$ (1,011,972)
<u>Local District Financing</u>							
Authority	96,100	-	-	-	-	(96,100)	(96,100)
Total	<u>\$ 1,384,447</u>	<u>\$ -</u>	<u>\$ 276,375</u>	<u>\$ -</u>	<u>(1,011,972)</u>	<u>(96,100)</u>	<u>(1,108,072)</u>
General Revenues:							
Property Taxes					334,579	-	334,579
Sale of Property					348,633	-	348,633
Unrestricted Investment Earnings					37,701	31,968	69,669
Total General Revenues					<u>720,913</u>	<u>31,968</u>	<u>752,881</u>
Change in Net Assets					(291,059)	(64,132)	(355,191)
Net Assets - Beginning					<u>368,216</u>	<u>433,286</u>	<u>801,502</u>
Net Assets - Ending					<u>\$ 77,157</u>	<u>\$ 369,154</u>	<u>\$ 446,311</u>

VILLAGE OF DEXTER  
Notes to Financial Statements  
June 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Village of Dexter, Michigan, was incorporated in 1824. The Village operates under an elected Village Council, with a full-time Village Manager appointed by the Council to carry out the policies that it establishes. Services are provided to approximately 2,800 residents in the areas of police, refuse removal, parks and recreation, road construction, lighting, maintenance, and water and sewer.

As required by generally accepted accounting principles, these financial statements present the Village of Dexter and its component units, entities for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The Village changed its fiscal year end to June 30; as a result, these financial statements are for a sixteen month period ending June 30, 2006.

*Discretely Presented Component Units*

Downtown Development Authority

The Village of Dexter Downtown Development Authority (DDA) was established to promote economic growth and revitalization of the Village's Downtown district. The DDA Board is appointed by the Village Council and the annual operating budget and any modifications require the approval of the Village Council. The DDA has a June 30 fiscal year end. The DDA changed its fiscal year to coincide with the Village of Dexter. As a result, the financial statements presented are for a sixteen month period ending June 30, 2006.

Dexter Village Local Development Finance Authority (LDFA)

The Dexter Village Local Development Finance Authority was formed by the Village under the authority of P.A. 281 of 1986, to promote economic growth of the Village. The LDFA and the related tax increment financing plan, "capture" taxes on the parcels in the district and use them for the repayment of debt issued to finance infrastructure improvements at the Dexter Business Park.

The LDFA board is appointed by Village Council, who also approves the annual budgets. The LDFA has a February 28 fiscal year end.

The LDFA and DDA have separate audited financial statements that may be obtained from the Village.

VILLAGE OF DEXTER  
Notes to Financial Statements  
June 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

A. Reporting Entity – Continued

*Jointly Governed Organizations*

Dexter Area Fire Department

The Village and the neighboring Townships of Webster, Dexter and Lima have joined together to form the Dexter Area Fire Department. The purpose of the Department is to provide fire protection and to establish and maintain a fire department that will serve the municipalities involved. The Department is governed by the Fire Administration Board whose membership is composed of individuals from each municipality. The revenues of the Department are provided by a service fee to each municipality, based upon a ratio of runs incurred to that municipality to total runs and the Department's net expenditures for the applicable period. Audited financial statements for the Department may be obtained at Village offices.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

VILLAGE OF DEXTER  
Notes to Financial Statements  
June 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

Governmental Funds

The Village reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Municipal Street Fund is a special revenue fund used to account for property tax levy and special assessments for street improvements.

The Streetscape Debt Service Fund is used to account for voted property tax levy to pay principal and interest on bonds issued to finance improvement projects.

In addition, the Village reports on the following fund types:

The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects).

VILLAGE OF DEXTER  
Notes to Financial Statements  
June 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

Proprietary Funds

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds include the enterprise fund types.

Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Village Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The Village has two enterprise funds which are the Water and Sewer Funds.

Fiduciary Funds

Fiduciary Funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. Fiduciary funds include the following fund types:

The Economic Development Trust Fund accounts for community development block grant funds received and the related expenses.

The Agency Fund is used to account for assets that the government holds for others in an agency capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are



VILLAGE OF DEXTER  
Notes to Financial Statements  
June 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes. When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as needed.

*Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the Village to invest in obligations of the U.S. Treasury, commercial paper of certain investment grades, and deposits of Michigan commercial banks. Investments for the Village, as well as for its component units, are recorded at fair value.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. All trade and property tax receivables are shown net of allowance for uncollectible accounts, which are recorded at \$-0- at June 30, 2006.

3. Inventory

Inventories are valued at cost using the first-in/first out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

VILLAGE OF DEXTER  
Notes to Financial Statements  
June 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities and Net Assets or Equity – Continued

4. Restricted Assets

Assets of the Water and Sewer Funds have been restricted for debt service payments which are to be funded out of bond proceeds and as required by other agreements.

Retained earnings have not been reserved for the restricted assets resulting from the issuance of debt and the receipt of contributed capital.

Restricted assets at June 30, 2006 consist of the following:

	<u>Restricted Assets</u>
Revenue Bond Reserve	\$ 358,578
Revenue Bond Debt Retirement	696,564
Revenue Bond Repair and Improvement	300,594
General Obligation Bonds Debt Retirement	<u>424,168</u>
	<u>\$1,779,904</u>

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of capitalized value of the assets constructed. Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land Improvements	15-50
Buildings	20-80
Streets	20-30
Equipment	5-25

VILLAGE OF DEXTER  
Notes to Financial Statements  
June 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities and Net Assets or Equity – Continued

6. Compensated Absences

In accordance with contracts negotiated with the various employee groups of the Village and the Village's internal policy, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All sick and vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. This liability is composed of employees who retire and any unused vacation paid upon termination of employment. The total liability at June 30, 2006 is \$147,926.

7. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the Statement of Net Assets. Long-term liabilities expected to be financed from proprietary funds are reported as liabilities in those funds.

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

VILLAGE OF DEXTER  
Notes to Financial Statements  
June 30, 2006

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet And the Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$2,735,000 difference are as follows:

General Obligation Bonds Payable	<u>\$2,735,000</u>
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B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$499,015 difference are as follows:

Capital Outlay	\$ 970,957
Depreciation Expense	<u>(471,942)</u>
	<u>\$ 499,015</u>

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net long term debt and related items". The details of this \$360,000 difference are as follows:

Principal Repayments Made by the D.D.A.	\$ 110,000
Principal Repayments: General Obligation Bonds	<u>250,000</u>
	<u>\$ 360,000</u>

VILLAGE OF DEXTER  
Notes to Financial Statements  
June 30, 2006

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Village is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (Uniform Budgeting Act). The following is a summary of the requirements of this act:

- a. Budgets must be adopted for the General and Special Revenue Funds.
- b. Budgets must be balanced.
- c. Budgets must be amended as necessary.
- d. Public hearings must be held prior to adoption.
- e. Expenditures cannot exceed budget appropriations.
- f. Expenditures must be authorized by a budget appropriation prior to being incurred.

The Village follows these procedures in establishing the budgetary data reflected in these financial statements:

1. Prior to June 30, the Village Manager submits to the Village Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them, for the General and Special Revenue Funds. These are prepared on the activity level basis using the modified accrued method of accounting.
2. Public hearings are conducted at the Village office to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted on a departmental (activity) basis through passage of a resolution.
4. The President or his designee is authorized to transfer budgeted amounts within the departmental appropriation accounts; however, the Village Council must approve any revisions that alter the total expenditures of any department.
5. Budget appropriations lapse at year end.
6. The Village Council may authorize supplemental appropriations (budget amendments) during the year. In 2006 several budget amendments were made and are reflected in the financial statements.

B. Compliance with P.A. 621 of 1978

1. Deficit Fund Balance

None of the funds have a deficit fund balance as of June 30, 2006.

VILLAGE OF DEXTER  
Notes to Financial Statements  
June 30, 2006

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – Continued

B. Compliance with P.A. 621 of 1978 – Continued

2. Excess of Expenditures Over Appropriations in Budgetary Funds

The budget for the General Fund is adopted at the activity level and the budgets for the Special Revenue Funds are adopted at the activity level. Expenditures in excess of budget appropriations are as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess Expenditures Over Appropriations</u>
General Fund:			
Capital Outlay	\$ 148,000	\$ 318,214	\$170,214
Street Lights	62,500	65,751	3,251
Municipal Streets:			
Public Works	32,000	33,382	1,382

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Under State law, the Village is permitted to invest in deposits with Michigan commercial banks, savings and loans and credit unions, obligations of the U.S. Treasury, and corporate bonds and commercial paper with certain investment grades.

The following information, as required by the Governmental Accounting Standards Board Statement number 40 is presented, regarding the Village's deposits and investments:

Custodial Credit Risk is the risk that in the event of a bank failure, the Village's deposits may not be recovered. Neither State law nor the Village's investment policy requires consideration of custodial credit risk. As of June 30, 2006, the Village's book balance of its deposits was \$5,336,671; the total book balance was \$5,336,721, due to \$50 in cash on hand. The bank balance was \$5,520,806 which was exposed to custodial credit risk, as follows:

	<u>Bank Balance</u>
Insured by F.D.I.C.	\$ 460,309
Uninsured and Uncollateralized	<u>5,060,497</u>
Total	<u>\$5,520,806</u>

VILLAGE OF DEXTER  
Notes to Financial Statements  
June 30, 2006

IV. DETAILED NOTES ON ALL FUNDS – Continued

A. Deposits and Investments – Continued

A reconciliation of cash for the primary government follows:

Cash and Cash Equivalents per:	
Statement of Net Assets	\$3,474,562
Restricted Assets-Statement of Net Assets	1,779,904
Statement of Fiduciary Net Assets	<u>82,255</u>
Total	<u>\$5,336,721</u>

At June 30, 2006, the carrying amount and bank balances of the component units of the Village of Dexter are as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>FDIC Insured</u>
Downtown Development Authority	<u>\$ 468,045</u>	<u>\$ 538,485</u>	<u>\$ 100,000</u>
Local Development Financing Authority	<u>\$ 789,163</u>	<u>\$ 789,163</u>	<u>\$ 100,000</u>

Credit Risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Village has no investment policy that would further limit its investment choices.

Interest Rate Risk. The Village does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Village's deposits and investments consisted of the following:

<u>Deposits and Investments</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Savings and Checking Accounts	\$2,899,589	Demand
Certificates of Deposit	812,376	200 Days
Pooled Investments (Share Price = \$1)	<u>1,808,841</u>	Demand
	<u>\$5,520,806</u>	

Concentration of Credit Risk. The Village's investment policy places no limit on the amount the Village may invest in any one issuer. The Village has no more than 5 percent of its investments in any one financial institution.

VILLAGE OF DEXTER  
Notes to Financial Statements  
June 30, 2006

IV. DETAILED NOTES ON ALL FUNDS – Continued

B. Capital Assets

Capital asset activity for the sixteen months ended June 30, 2006 was as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, not depreciated:				
Land	\$ <u>767,610</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>767,610</u>
Capital Assets, being depreciated:				
Building and Improvements	1,680,210	44,364	-	1,724,574
Machinery and Equipment	228,439	37,167	-	265,606
Infrastructure	6,599,839	666,253	-	7,266,092
Vehicles	318,854	137,689	-	456,543
Land Improvements	<u>22,314</u>	<u>85,484</u>	<u>-</u>	<u>107,798</u>
	<u>8,849,656</u>	<u>970,957</u>	<u>-</u>	<u>9,820,613</u>
Less: Accumulated Depreciation:				
Building and Improvements	(1,079,737)	(30,583)	-	(1,110,320)
Machinery and Equipment	(92,995)	(18,966)	-	(111,961)
Infrastructure	(2,439,718)	(309,702)	-	(2,749,420)
Vehicles	(150,483)	(111,251)	-	(261,734)
Land Improvements	<u>-</u>	<u>(1,440)</u>	<u>-</u>	<u>(1,440)</u>
	<u>(3,762,933)</u>	<u>(471,942)</u>	<u>-</u>	<u>(4,234,875)</u>
Governmental Activities Capital Assets, net	\$ <u><u>5,854,333</u></u>	\$ <u><u>499,015</u></u>	\$ <u><u>-</u></u>	\$ <u><u>6,353,348</u></u>



VILLAGE OF DEXTER  
Notes to Financial Statements  
June 30, 2006

IV. DETAILED NOTES ON ALL FUNDS – Continued

B. Capital Assets – Continued

<u>Business-type Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, not depreciated:				
Land	\$ 348,789	\$ -	\$ -	\$ 348,789
Capital Assets, being depreciated:				
Water and Sewer System	18,650,028	317,650	-	18,967,678
Vehicles	41,565	-	-	41,565
	<u>18,691,593</u>	<u>317,650</u>	<u>-</u>	<u>19,009,243</u>
Less: Accumulated Depreciation:				
Water and Sewer System	(5,961,691)	(1,045,140)	-	(7,006,831)
Vehicles	(22,422)	(4,737)	-	(27,159)
	<u>(5,984,113)</u>	<u>(1,049,877)</u>	<u>-</u>	<u>(7,033,990)</u>
Business Activities				
Capital Assets, net	\$ <u>13,056,269</u>	\$ <u>(732,227)</u>	\$ -	\$ <u>12,324,042</u>

Depreciated expense was charged to functions of the primary government as follows:

General Government	\$ 2,170
Public Safety	25,668
Public Works	441,127
Recreation and Cultural	2,977
	<u>\$ 471,942</u>

C. Interfund Receivables, Payables and Transfers

1. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2006, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water Fund	Streetscape Debt	<u>\$ 2,748</u>

2. Interfund Transfers

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Major Street	Municipal Street	\$ 20,000
Local Street	Municipal Street	195,000
Local Street	Major Street	30,225
General Fund	Equipment Replacement	<u>152,183</u>
		<u>\$397,408</u>

Due to/from accounts represent uncleared transactions at year end. Transfers represent budgeted operating subsidies.

VILLAGE OF DEXTER  
Notes to Financial Statements  
June 30, 2006

IV. DETAILED NOTES ON ALL FUNDS – Continued

D. Long-Term Debt

The following is a summary of long-term debt transactions of the Village for the year ended June 30, 2006:

	Balance March 1, 2005	Additions	Reductions	Balance June 30, 2006	Due Within One Year
Governmental Activities:					
<u>Primary Government:</u>					
Village of Dexter:					
1996 Downtown Development					
Bonds	\$ 60,000	\$ -	\$ 60,000	\$ -	\$ -
1998 Village of Dexter Bonds	480,000	-	60,000	420,000	60,000
2002 Refunding Bonds	1,545,000	-	130,000	1,415,000	105,000
Total Primary Government Debt	<u>\$ 2,085,000</u>	<u>\$ -</u>	<u>\$ 250,000</u>	<u>\$ 1,835,000</u>	<u>\$ 165,000</u>
Downtown Development Authority:					
1994 Downtown Development					
Bonds	\$ 150,000	\$ -	\$ 50,000	\$ 100,000	\$ 30,000
2001 Village of Dexter Bonds	860,000	-	60,000	800,000	35,000
Total Downtown Dev. Authority	<u>\$ 1,010,000</u>	<u>\$ -</u>	<u>\$ 110,000</u>	<u>\$ 900,000</u>	<u>\$ 65,000</u>
Grand Total	<u>\$ 3,095,000</u>	<u>\$ -</u>	<u>\$ 360,000</u>	<u>\$ 2,735,000</u>	<u>\$ 230,000</u>

Following is a detailed description of each of the above debts:

Primary Government

1996 Downtown Development Bonds

On July 18, 1996 the Village of Dexter issued General Obligation Unlimited Tax Bonds on behalf of the DDA in the amount of \$1,800,000 to finance downtown improvement projects. The principal and interest amounts are due over 21 years starting November 1, 1996 through May 1, 2017. The interest rates range from 6.0% to 7.75%. The payments for 2005 through 2017 were refunded with the 2002 Refunding Bonds, and are considered defeased.

VILLAGE OF DEXTER  
Notes to Financial Statements  
June 30, 2006

IV. DETAILED NOTES ON ALL FUNDS – Continued

D. Long-Term Debt – Continued

1998 Village of Dexter Bonds

On May 27, 1998, the Village of Dexter issued General Obligation Limited Tax Bonds on behalf of the DDA in the amount of \$550,000 to finance downtown improvement projects. The principal and interest amounts are due over 15 years starting October 1, 1998 through October 1, 2012. The interest rates range from 4.05% to 5.50%.

2002 Village of Dexter Refunding Bonds

In 2002, the Village of Dexter issued General Obligation Unlimited Tax Refunding Bonds in the amount of \$1,610,000 to refund the final twelve years of payments on the 1996 Downtown Development Bonds. Principal and interest are due beginning May 1, 2003 through May 1, 2017. Interest rates range from 2.00% to 4.20%.

DDA Debt

1994 Downtown Development Bonds

On November 1, 1994 the Village Downtown Development Authority issued General Obligation, Limited Tax Bonds in the amount of \$255,000 to finance downtown improvement projects. The principal and interest amounts are due over 15 years starting May 1, 1995 through May 1, 2009. The interest rates range from 6.0% to 7.1%.

2001 Village of Dexter Bonds

On December 1, 2001, the Village of Dexter issued General Obligation Limited Tax Bonds on behalf of the DDA in the amount of \$900,000 to finance downtown improvement projects. The principal and interest amounts are due over 19 years starting May 1, 2002 through May 2, 2020. The interest rates range from 4.5% to 7.0%.

VILLAGE OF DEXTER  
Notes to Financial Statements  
June 30, 2006

IV. DETAILED NOTES ON ALL FUNDS – Continued

D. Long-Term Debt – Continued

Component Unit

Local Development

Finance Authority (LDFA)	Balance 3/1/05	Additions	Payments	Balance 2/28/06	Due in 1 year
1999 Water Project Contract	\$ 176,775	\$ -	\$ 176,775	\$ -	\$ -
1999 Sewer Project Contract	114,968	-	114,968	-	-
1999 LDFA Limited Tax G.O. Local Development Refunding Bonds	<u>835,000</u>	<u>-</u>	<u>345,000</u>	<u>490,000</u>	<u>490,000</u>
Total LDFA Debt	<u>\$ 1,126,743</u>	<u>\$ -</u>	<u>\$ 636,743</u>	<u>\$ 490,000</u>	<u>\$ 490,000</u>

Following is a detailed description of each of the above debts:

Component Unit

LDFA Debt:

Obligations in the name of the LDFA of the Village of Dexter backed by the limited tax, full faith, and credit of the Village of Dexter:

1999 Contracts Payable to Village of Dexter

In accordance with the 1998 Revised Tax Increment Financing Plan, the LDFA has agreed to pay thirty percent (30%) of the cost of the 1999-2000 Village water and sewer system improvement costs.

The LDFA has agreed to provide \$1,060,650, in six equal payments over six (6) years, for the 1999 Village water system improvements.

The LDFA also agreed to provide the \$1,189,800 for the 2000 Village sewage disposal system improvements. During the 1999-2000 fiscal year \$500,000 was paid to the village for this project. The balance of \$689,800 will be paid to the village in six equal payments over six years.

VILLAGE OF DEXTER  
Notes to Financial Statements  
June 30, 2006

IV. DETAILED NOTES ON ALL FUNDS – Continued

D. Long-Term Debt – Continued

Bond Refunding/Subsequent Transaction

On August 19, 1999, the Dexter Village LDFA issued Local Development Refunding Bonds, Series 1999, Limited Tax General Obligation, in the amount of \$2,070,000. In August 1999, the LDFA received \$2,061,823 in proceeds that have been placed in an escrow fund at Michigan National Bank. These proceeds were used on April 1, 2000, to redeem the 1991 LDFA Series I, II, III, and IV bonds payable.

The refunding bonds repayment schedule is as follows:

	<u>Fiscal</u> <u>Year End</u>	<u>Interest</u>	<u>Principal</u>
1999 Local Development Refunding Bonds General Obligation, Limited Tax Issue of \$2,070,000 dated August 19, 1999, Maturing April 1, (principal and Interest Rate: 4.1% to 5.0%)	2007	\$ <u>12,250</u>	\$ <u>490,000</u>

	Balance March 1, 2005	Additions	Reductions	Balance June 30, 2006	Due Within One Year
<u>Business-type Activities:</u>					
Installment Note - Act 99	\$ 135,770	\$ -	\$ 64,543	\$ 71,227	\$ 34,736
Northeast Sewer Bonds	540,000	-	180,000	360,000	180,000
1998 Special Assessment Bonds	365,000	-	40,000	325,000	40,000
Rural Development Water Bonds	2,410,000	-	38,000	2,372,000	40,000
Rural Development Sewer Bonds	2,817,000	-	38,000	2,779,000	40,000
Totals	<u>\$ 6,267,770</u>	<u>\$ -</u>	<u>\$ 360,543</u>	<u>\$ 5,907,227</u>	<u>\$ 334,736</u>

Following is a detailed description of the above debts:

Northeast Sewer Bonds

The Village issued bonds in 1998 totaling \$1,735,000 to finance extensions for the sewer and water lines. The principal and interest amounts are due on October 1 and April 1, from 1998 to 2008. The principal amounts outstanding are \$180,000 per year. Interest rates range from 4.00% to 4.125%. A related special assessment to the benefiting property owners has been issued to finance the bond payments. At June 30, 2006, the amount of outstanding debt was \$360,000.

VILLAGE OF DEXTER  
Notes to Financial Statements  
June 30, 2006

IV. DETAILED NOTES ON ALL FUNDS – Continued

D. Long-Term Debt – Continued

1998 Village of Dexter Bonds

On May 27, 1998, the Village of Dexter issued Special Assessment Bonds (General Obligation Limited Tax) on behalf of the DDA in the amount of \$850,000 to finance downtown water system improvement projects. The principal and interest amounts are due over the next 15 years starting October 1, 1998 through October 1, 2012. The interest rates range from 4.05% to 5.50%. At June 30, 2006, the amount of outstanding debt was \$325,000.

1999 Water Supply System Revenue Bonds

On December 15, 1999, the Village issued \$3,173,000 of revenue bonds, which are payable to Rural Development. Interest is at 5% and payments are due on October 1. Payments are due for forty years beginning in 2000, and the principal payments range from \$10,000 to \$163,000. At June 30, 2006, the amount of outstanding debt was \$2,372,000.

2000 Sewage Disposal System Revenue Bonds

On February 8, 2000, the Village issued \$3,466,000 of revenue bonds, which are payable to Rural Development. Series A bonds (\$1,933,000) bear interest at 5% and Series B bonds (\$1,533,000) bear interest at 4.375%, and payments are due October 1. Payments are due for forty years beginning in 2000, and the principal payments range from \$32,000 to \$186,000. At June 30, 2006 the amount of outstanding debt was \$2,779,000.

"Act 99" Installment Note

On December 28, 2001, the Village borrowed \$288,153 from LaSalle Bank National Association. Annual principal and interest payments are due on May 28, 2003, through 2008. Interest is calculated at 5.05%. At June 30, 2006, the amount of outstanding debt was \$71,227.

VILLAGE OF DEXTER  
Notes to Financial Statements  
June 30, 2006

IV. DETAILED NOTES ON ALL FUNDS – Continued

D. Long-Term Debt – Continued

The following is a summary of general obligation debt outstanding (excluding compensated absences) of the Village as of June 30, 2006:

	<u>Number of</u> <u>Issues</u>	<u>Interest</u> <u>Rate</u>	<u>Maturing</u> <u>Through</u>	<u>Principal</u> <u>Outstanding</u>
Governmental Activities:				
General Obligation Bonds	3	4.50-4.85%	2012	\$1,835,000
DDA Debt	2	4.50-7.1%	2020	<u>900,000</u>
				<u>\$2,735,000</u>
Business-type Activities:				
Revenue Bonds	2	4.375-5.00%	2038	\$5,151,000
General Obligation	2	4.000-5.00%	2013	685,000
Installment Note	1	5.05%		<u>71,227</u>
				<u>\$5,907,227</u>
Component Unit – LFDA:				
General Obligation Bonds	1	4.1-5.0%	2007	<u>\$ 490,000</u>

The annual debt service requirements to maturity for general obligation bonds outstanding as of June 30, 2006 are as follows:

<u>Year Ended</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 230,000	\$ 119,206	\$ 334,736	\$ 268,872
2008	240,000	107,995	340,491	254,427
2009	255,000	97,727	132,000	239,690
2010	225,000	86,236	138,000	233,582
2011	240,000	76,853	147,000	227,150
2012-2016	1,120,000	256,624	654,000	1,035,133
2017-2021	425,000	41,642	688,000	890,413
2022-2026	-	-	857,000	719,281
2027-2031	-	-	1,068,000	505,614
2032-2036	-	-	1,333,000	238,782
2037-2038	-	-	<u>215,000</u>	<u>12,694</u>
	<u>\$ 2,735,000</u>	<u>\$ 786,283</u>	<u>\$ 5,907,227</u>	<u>\$ 4,625,638</u>
	<u>Component Unit – LDFA</u>			
	<u>Principal</u>	<u>Interest</u>		
2007	<u>\$ 490,000</u>	<u>\$ 12,250</u>		

VILLAGE OF DEXTER  
Notes to Financial Statements  
June 30, 2006

IV. DETAILED NOTES ON ALL FUNDS – Continued

E. Reserved Fund Balance

A detailed description of fund balance reservations and designations (for all governmental fund types) at June 30, 2006, is presented below:

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
<u>Fund Balance</u>			
Reserved – Debt Service	\$ -	\$ -	\$ 195,324
Reserved – Prepays	750	-	-
Unreserved – Undesignated	<u>1,015,134</u>	<u>1,350,154</u>	<u>-</u>
Total Fund Balance	<u>\$1,015,884</u>	<u>\$1,350,154</u>	<u>\$ 195,324</u>

F. Property Taxes

Property tax assessments are determined (Tax Day) as of each December 31. Taxes are levied on July 1 of the following year. These taxes are due on September 14 with the final collection date of February 28 before they are added to the county delinquent tax roll. The Village bills and collects its own property taxes which are accounted for in the General Fund, Municipal Street Fund, and Streetscape Debt Fund. Village property tax revenues are recognized in the current year as revenue in accordance with guidelines of the State of Michigan.

The Village is permitted by State law to levy taxes up to \$12.50 per \$1,000 of equalized valuation for general governmental services. The following is a summary of the tax rates levied on the 2005 tax roll:

<u>Per \$1,000 of State Equalized Value</u>					
<u>Purpose</u>	<u>Authorization</u>	<u>Authorized Rate</u>	<u>Authorized Rate Post "Roll Back"</u>	<u>Rate Levied</u>	<u>Tax Margin</u>
Operating	Charter	12.5000	10.0008	10.0008	-
Streets	Charter	5.0000	4.0001	3.0055	.9946
Debt	Voted	2.0000	2.0000	.7000	1.3000



VILLAGE OF DEXTER  
Notes to Financial Statements  
June 30, 2006

V. OTHER INFORMATION

A. Employee Retirement Systems and Plans

1. Municipal Employees Retirement System Defined Benefit Plan

a. Plan Description

The Village contributes to the Michigan Municipal Employees' Retirement System (MMERS), which is an agent multiple employer retirement system that covers substantially all full time employees of the Village. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and postretirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by a certain percentage based on the benefit program in effect as of the date of termination of membership times the final average compensation (FAC). The most recent period for which actuarial data was available was for the actuarial valuation as of December 31, 2005.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of the State of Michigan (MSA 5.333(a); MCLA 46.12(a)). MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Council. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 447 N. Canal St., Lansing, Michigan 48917-9755.

b. Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Village's collective bargaining units and personnel policy. The Village is required to contribute at an actuarially determined rate; the current rate was a percentage of annual compensation at December 31, 2003 as follows:

General	7.20%
---------	-------

c. Annual Pension Cost

During the sixteen month period ended June 30, 2006, the Village's contributions totaling \$103,867 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2003. The employer contribution rate has been determined based on the entry age normal cost funding method. Under

VILLAGE OF DEXTER  
Notes to Financial Statements  
June 30, 2006

V. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

1. Municipal Employees Retirement System Defined Benefit Plan – Continued

c. Annual Pension Cost – Continued

the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

<u>Fiscal Year</u>	<u>Valuation Date Dec. 31</u>	<u>Trend Information</u>		
		<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	2001	\$65,310	100%	\$ -0-
2005	2002	84,075	100%	-0-
2006	2003	103,867	100%	-0-

2. Defined Contribution Money Purchase Pension Plan

a. Plan Description

The Village of Dexter Money Purchase Plan is a single employer P.E.R.S. that administers the Village's defined contribution pension plan for the Village Manager. The Village is the only non-employee contributor to the plan. Only the Village Manager is eligible for the plan. As of June 30, 2006 the plan's membership was 1. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' account. As established by Village policy, the Manager is eligible for the plan on the date of commencement of their employment

VILLAGE OF DEXTER  
Notes to Financial Statements  
June 30, 2006

V. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

2. Defined Contribution Money Purchase Pension Plan – Continued

a. Plan Description – Continued

(following election). Voluntary contributions made by participants and employer contributions vest immediately as provided by the plan. The Village contributes up to 10% of the employee's gross earnings.

b. Summary of Significant Accounting Policies and Plan Asset Matters

The Village's Money Purchase Plan financial statements are prepared on the accrual basis of accounting. Contributions from the Village and the Village employees are recognized as revenue in the period in which employees provide services to the Village. Investment income is recognized as earned by the pension plan.

Investments in Securities are valued at fair value. The Village's plan assets are invested through ICMA Retirement Corporation, in mutual funds administered by ICMA-RC. Investment concentrations information required by GASB 25 is not available.

c. Contributions Required and Contributions Made

The Village is required to contribute an amount equal to 10% of the employee's gross earnings. During the sixteen month period ended June 30, 2006, the Village's required and actual contributions amounted to \$8,595. There were no employee contributions.

3. Post Retirement Health Care Benefits

The Village provides health care benefits to two retirees in accordance with their respective labor contracts. The Village includes these retirees and their dependents in its insured health care plan. Expenditures for post employment health care benefits are recognized as the insurance premiums become due. During the sixteen month period ended June 30, 2006, this amounted to \$21,645.

VILLAGE OF DEXTER  
Notes to Financial Statements  
June 30, 2006

V. OTHER INFORMATION – Continued

B. Risk Management

The Village of Dexter is a member of the Michigan Municipal Risk Management Authority for its general liability insurance coverage and a member of the Accident Fund for its workers compensation coverage. The Village pays annual premiums to the pools. The pools are self-sustaining through member premiums, and each carries reinsurance through commercial companies for claims in excess of the pool loss reserve fund.

In the event that a single loss should exceed the amount of protection afforded by the pool loss reserve fund, reinsurance, or other insurance carried by the pools, or in the event that a series of losses should deplete or exhaust the loss reserve fund and reinsurance, the payment of valid losses shall be the obligation of the individual member or members of the respective pool against whom the claim was made.

No such event has occurred with the Village of Dexter and the pools to which it belongs in any of the past three fiscal years.

C. Subsequent Event

On November 1, 2006, the Village of Dexter issued \$1,700,000 General Obligation Limited Tax Bonds, for various capital improvements in the Village. The debt payments will commence on May 1, 2007, and are to be paid semi-annually through the year 2027.

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF DEXTER  
Required Supplementary Information  
Defined Benefit Pensions Plans Trend Information (Unaudited)  
June 30, 2006

Municipal Employees Retirement System  
Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/00	\$1,107,517	\$ 1,303,343	\$ 195,826	85%	\$687,506	28%
12/31/01	1,271,105	1,469,988	198,883	86	680,185	29
12/31/02	1,417,789	1,784,208	366,419	79	835,232	44
12/31/03	1,630,529	1,978,833	348,304	82	866,692	40
12/31/04	1,814,081	2,370,866	556,785	77	882,564	63
12/31/05	1,975,646	2,715,100	739,454	73	946,516	78

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2005, the latest actual valuation, follows:

Actuarial cost method	Entry age normal cost
Amortization method	Level percent
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases Includes inflation at 4.5%	4.50-12.90%
Cost of living adjustments	None

**VILLAGE OF DEXTER**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**For the Sixteen Months Ended June 30, 2006**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Property Taxes	\$ 1,810,700	\$ 1,810,700	\$ 1,835,266	\$ 24,566
Licenses and Permits	18,500	18,500	19,123	623
Intergovernmental - State	272,300	272,300	276,831	4,531
Charges for Services	905,400	905,400	890,970	(14,430)
Fines and Forfeitures	6,500	6,500	7,141	641
Franchise Fees	37,000	37,000	39,496	2,496
Interest	36,000	36,000	57,795	21,795
Other	55,100	55,100	93,162	38,062
Total Revenues	<u>3,141,500</u>	<u>3,141,500</u>	<u>3,219,784</u>	<u>78,284</u>
Expenditures:				
General Government:				
Village Council	58,300	58,300	54,076	4,224
Village Manager	327,500	327,500	311,658	15,842
Finance	25,000	25,000	23,345	1,655
Attorney	55,000	55,000	54,757	243
Clerk	8,400	8,400	5,068	3,332
Treasurer	122,700	122,700	112,074	10,626
Building and Grounds	196,200	196,200	172,765	23,435
Tree Program	75,300	75,300	40,893	34,407
Total General Government	<u>868,400</u>	<u>868,400</u>	<u>774,636</u>	<u>93,764</u>
Public Safety:				
Law Enforcement	474,500	474,500	427,781	46,719
Fire Department	400,500	400,500	396,937	3,563
Total Public Safety	<u>875,000</u>	<u>875,000</u>	<u>824,718</u>	<u>50,282</u>
Planning and Zoning:				
Planning	141,300	141,300	131,666	9,634
Board of Appeals	2,200	2,200	578	1,622
Total Planning and Zoning	<u>143,500</u>	<u>143,500</u>	<u>132,244</u>	<u>11,256</u>
Public Works:				
Department of Public Works	471,000	471,000	186,233	284,767
Downtown Public Works	120,500	120,500	115,795	4,705
Storm Water	8,000	8,000	3,727	4,273
Engineering	25,000	25,000	24,692	308
Street Lights	62,500	62,500	65,751	(3,251)
Solid Waste	605,400	605,400	603,500	1,900
Total Public Works	<u>1,292,400</u>	<u>1,292,400</u>	<u>999,698</u>	<u>292,702</u>
Parks and Recreation	<u>54,900</u>	<u>54,900</u>	<u>32,538</u>	<u>22,362</u>
Insurance and Bonds	<u>90,500</u>	<u>90,500</u>	<u>78,362</u>	<u>12,138</u>
Contributions	<u>122,500</u>	<u>122,500</u>	<u>120,753</u>	<u>1,747</u>
Capital Outlay	<u>148,000</u>	<u>148,000</u>	<u>318,214</u>	<u>(170,214)</u>
Total Expenditures	<u>3,595,200</u>	<u>3,595,200</u>	<u>3,281,163</u>	<u>314,037</u>

(continued)

**VILLAGE OF DEXTER**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**For the Sixteen Months Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ (453,700)	\$ (453,700)	\$ (61,379)	\$ 392,321
Other Financing Sources: Operating Transfers In	<u>165,000</u>	<u>165,000</u>	<u>152,183</u>	<u>(12,817)</u>
Change in Fund Balance	\$ <u>(288,700)</u>	\$ <u>(288,700)</u>	90,804	\$ <u>379,504</u>
Fund Balance - Beginning			<u>925,080</u>	
Fund Balance - Ending			\$ <u>1,015,884</u>	



**VILLAGE OF DEXTER**  
**Municipal Street Special Revenue Fund**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**For the Sixteen Months Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
Revenues:				
Property Taxes	\$ 545,000	\$ 545,000	\$ 546,371	\$ 1,371
Delinquent Property Taxes	1,000	1,000	3,705	2,705
Interest	15,500	15,500	32,558	17,058
Total Revenues	<u>561,500</u>	<u>561,500</u>	<u>582,634</u>	<u>21,134</u>
Expenditures:				
Public Works	<u>32,000</u>	<u>32,000</u>	<u>33,382</u>	<u>(1,382)</u>
Excess (Deficiency) of Revenues Over Expenditures	529,500	529,500	549,252	19,752
Other Financing Uses:				
Operating Transfers Out	<u>(582,400)</u>	<u>(582,400)</u>	<u>(215,000)</u>	<u>367,400</u>
Change in Fund Balance	\$ <u><u>(52,900)</u></u>	\$ <u><u>(52,900)</u></u>	334,252	\$ <u><u>387,152</u></u>
Fund Balance - Beginning			<u>802,666</u>	
Fund Balance - Ending			\$ <u><u>1,136,918</u></u>	

**VILLAGE OF DEXTER**  
**Streetscape Debt Service Fund**  
**Statement of Revenues, Expenditures**  
**and Changes in Fund Balance**  
**For the Sixteen Months Ended June 30, 2006**

Revenues:	
Property Taxes	\$ 135,639
Delinquent Property Taxes	1,120
Special Assessments	75,626
Interest	9,063
Total Revenues	<u>221,448</u>
Expenditures:	
Principal Retirement	250,000
Interest and Fees	117,898
Total Expenditures	<u>367,898</u>
Excess (Deficiency) of Revenues	
Over Expenditures	(146,450)
Fund Balance - Beginning	<u>341,774</u>
Fund Balance - Ending	<u><u>\$ 195,324</u></u>

OTHER SUPPLEMENTARY INFORMATION

**VILLAGE OF DEXTER**  
**Nonmajor Special Revenue Funds**  
**Combining Balance Sheet**  
**June 30, 2006**

	Major Street	Local Street	Farmers Market	Equipment Replacement	Total
<b><u>ASSETS</u></b>					
Cash	\$ <u>106,136</u>	\$ <u>54,039</u>	\$ <u>1,785</u>	\$ <u>103,519</u>	\$ <u>265,479</u>
<b><u>LIABILITIES AND FUND BALANCE</u></b>					
Liabilities:					
Accounts Payable	\$ 9,006	\$ 43,237	\$ -	\$ -	\$ 52,243
Fund Balance:					
Unreserved:					
Undesignated	<u>97,130</u>	<u>10,802</u>	<u>1,785</u>	<u>103,519</u>	<u>213,236</u>
Total Liabilities and Fund Balance	\$ <u>106,136</u>	\$ <u>54,039</u>	\$ <u>1,785</u>	\$ <u>103,519</u>	\$ <u>265,479</u>

**VILLAGE OF DEXTER**  
**Nonmajor Special Revenue Funds**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**For the Sixteen Months Ending June 30, 2006**

	Major Street	Local Street	Farmers Market	Equipment Replacement	Total
Revenues:					
Intergovernmental - State	\$ 168,114	\$ 78,479	\$ -	\$ -	\$ 246,593
Charges for Services	-	-	1,780	109,466	111,246
Interest	5,986	1,558	5	5,341	12,890
Total Revenues	<u>174,100</u>	<u>80,037</u>	<u>1,785</u>	<u>114,807</u>	<u>370,729</u>
Expenditures:					
Public Works	<u>211,168</u>	<u>341,003</u>	<u>-</u>	<u>165</u>	<u>552,336</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(37,068)</u>	<u>(260,966)</u>	<u>1,785</u>	<u>114,642</u>	<u>(181,607)</u>
Other Financing Sources (Uses):					
Operating Transfers In	20,000	225,225	-	-	245,225
Operating Transfers Out	<u>(30,225)</u>	<u>-</u>	<u>-</u>	<u>(152,183)</u>	<u>(182,408)</u>
Total Other Financing Sources (Uses)	<u>(10,225)</u>	<u>225,225</u>	<u>-</u>	<u>(152,183)</u>	<u>62,817</u>
Change in Fund Balance	(47,293)	(35,741)	1,785	(37,541)	(118,790)
Fund Balance - Beginning	<u>144,423</u>	<u>46,543</u>	<u>-</u>	<u>141,060</u>	<u>332,026</u>
Fund Balance - Ending	\$ <u><u>97,130</u></u>	\$ <u><u>10,802</u></u>	\$ <u><u>1,785</u></u>	\$ <u><u>103,519</u></u>	\$ <u><u>213,236</u></u>

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## Independent Auditor's Report

October 25, 2006

To the Honorable President and Village Council  
Village of Dexter  
Dexter, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Dexter, Michigan, as of and for the sixteen months ended June 30, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents, and have issued our report thereon dated October 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Accounting Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Dexter, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

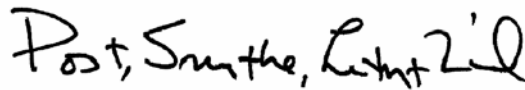
President and Village Council  
Village of Dexter, Michigan  
October 25, 2006

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Dexter, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Village Council, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Respectfully,

A handwritten signature in black ink that reads "Post, Smythe, Lutz & Ziel". The signature is written in a cursive, flowing style.

POST, SMYTHE, LUTZ and ZIEL LLP  
Certified Public Accountants

# POST, SMYTHE, LUTZ and ZIEL LLP

*Certified Public Accountants*

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October 25, 2006

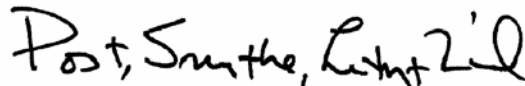
Honorable President and Village Council  
Village of Dexter  
Washtenaw County, Michigan

In planning and performing our audit of the Village of Dexter for the sixteen months ended June 30, 2006, we have considered the Village's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions in these areas. This letter does not affect our report dated October 25, 2006, on the financial statements of the Village of Dexter.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Village personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional studies or assist in their implementation.

Respectfully,



POST, SMYTHE, LUTZ and ZIEL LLP  
Certified Public Accountants



Accounting Issues

The Equipment Replacement Fund is recorded as a special revenue fund, but we could not locate the statutory authority for this fund. This fund appears to function as an internal service proprietary fund which internally "rents" the equipment to other funds to accumulate resources to purchase replacement equipment or repair and maintain existing equipment. We recommend that the administration research the authority and function of this fund and consider formalizing it into an internal service fund if appropriate.

Downtown Development Authority

During the course of the audit, we noted that there may be benefits to both the Downtown Development Authority Board as well as the Village Council and administration to have the DDA's accounting of cash receipts and disbursements administered by the Village. This would subject all DDA transactions to the same system of internal control as the Village, which includes segregation of duties. Also, this would greatly enhance the additional recordkeeping and compliance requirements for future grants that the Village and the DDA may be seeking for future projects. It would also ensure that statutory reporting requirements of the DDA are being met on an annual basis.